Report

of the

Examination of

Courtland-Springvale Town Insurance Company

Cambria, Wisconsin

As of December 31, 2003

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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May 21, 2004

Honorable Jorge Gomez
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2003, of the affairs and financial condition of:

COURTLAND-SPRINGVALE TOWN INSURANCE COMPANY
Cambria, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Courtland-Springvale Town Insurance Company (the company) was made in 1999 as of December 31, 1998. The current examination covered the intervening time period ending December 31, 2003, and included a review of such subsequent transactions deemed essential to complete this examination.

The “Summary of Examination Results” contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was organized as a town mutual insurance company on July 6, 1874, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Mutual Fire Insurance Company of the Town of Courtland. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were no amendments to the articles of incorporation or to the bylaws.

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance. The company is currently licensed to write business in the following counties:

Columbia	Green Lake
Dane	Jefferson
Dodge	Marquette
Fond du Lac	Sauk

A review was made of the policy and application forms currently used by the company. The company issues an approved policy with or without endorsements for terms of three years with premiums payable on the advance premium basis.

All business of the company is written by one agent, the Treasurer. The company charges policy fees equal to the compensation paid to the agent. The agent is presently compensated for the services as follows:

Type of Policy	**Compensation**
Property	$20 per policy
Endorsements	$ 8 per endorsement
Liability	10% or $10 yearly, whichever is greater.

Directors, except the Treasurer, have authority to adjust losses. Large losses are adjusted by several board members. Starting in 2004, the Treasurer does not adjust losses. Adjusters receive $25 for each loss adjusted plus $.38 per mile for travel allowance.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of six members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term. There are additional comments on director elections in the section of this report captioned “Corporate Records.”

The current board of directors consists of the following persons, as reported by the company:

Name	Principal Occupation	Residence	Expiry
Mike Jung*	Treasurer/Retired USPS	Cambria, WI	2005
Patricia Jung	Secretary/USPS Mail Carrier	Cambria, WI	2005
Randy Link	Farmer	Cambria, WI	2006
Tim Ashley	Auto Body Shop Owner	Cambria, WI	2006
Edward Fischer	Retired Farmer	Cambria, WI	2007
Tom Agnew	Farmer	Fall River, WI	2007

* Director who is also an agent is identified with an asterisk.

Members of the board currently receive $25 for each meeting attended, an annual lump sum of $125, and $.38 per mile for travel expenses.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified. Officers serving at the present time are as follows:

Name	Office	2004 Salary
Edward Fischer	President	$ 200
Tom Agnew	Vice President	125
Mike Jung	Treasurer	2,500
Patricia Jung	Secretary	*

* Patricia Jung receives an annual salary of $3,500 for duties of Manager and Secretary.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The company stated that at the time of the examination there was an adjusting committee consisting of the following directors:

Adjusting Committee	
Patricia Jung	Tom Agnew
Tim Ashley	Randy Link
Edward Fischer	

However, the adjusting committee is not appointed annually by the board of directors.

Growth of Company

The growth of the company since the previous examination as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2003	$33,035	128	$ 133	$352,153	$311,296
2002	27,369	122	4,882	336,181	300,541
2001	16,051	133	(22,038)	345,287	316,901
2000	12,863	134	(5,067)	357,667	343,370
1999	11,961	130	(6,752)	357,810	343,601
1998	19,727	140	2,810	359,603	349,450

The ratios of gross and net premiums written to surplus as regards policyholders since the previous examination were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Ratios Net	Writings Ratios Gross
2003	$79,857	$37,943	$311,296	12%	26%
2002	78,959	31,335	300,541	10	26
2001	69,242	25,473	316,901	8	22
2000	52,447	13,534	343,370	4	15
1999	54,078	15,091	343,601	4	16
1998	52,949	11,232	349,450	3	15

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Com-posite Ratio
2003	$17,990	$24,703	$33,035	54%	65%	119%
2002	13,984	21,472	27,369	51	69	120
2001	28,723	21,511	16,051	179	84	263
2000	16,256	15,898	12,863	126	117	243
1999	10,690	21,133	11,961	89	140	229
1998	16,924	16,351	19,727	86	146	232

The number of policyholders has continued to decrease. The company stated that around 70% of the policyholders were over 65 years of age. The company seldom writes a new policy. Other underwriting expense and composite ratios have been high because of the small amount of net premium. Surplus decreased for four years before an increase in 2003. Premiums ceded for reinsurance has ranged from 52% of direct premiums for 2003, 60% for 2002, 63% for

2001, 74% for 2000 and 72% for 1999. As discussed later in this report, the company does not currently cede all premiums as agreed in its reinsurance contract. The five-year average gross loss and LAE ratio before reinsurance was about 40% compared to the five-year average net loss ratio of about 100%. Because the company had high gross losses incurred in 1995 (285% gross loss ratio) and 1998 (647% gross loss ratio), its reinsurance rates were higher in subsequent years. Gross and net premiums written increased in all the years under examination, except for 2000.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2004
Termination provisions:	Either party may terminate this contract as of any subsequent January 1, by giving to the other party at least 90 days' advance notice in writing.

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Class A Casualty Quota Share
	Lines reinsured:	Casualty business
	Company's retention:	None, other than a $1,000 deductible where raw milk contamination occurs on an insured dairy farm if there is no dairy quality assurance program.
	Coverage:	100% of each and every loss occurrence, including LAE, in excess of the company's retention subject to the maximum policy limits of: a. $1,000,000 per occurrence, single limit or combined for bodily injury and property damage liability. b. $1,000,000 split limits, in any combination of bodily injury and property damage liability. c. $5,000 for medical payments, per person; $25,000 per accident.
	Reinsurance premium:	100% of the premium written.
	Ceding commission:	15% of premium paid to the reinsurer.
2.	Type of contract:	Class B First Surplus
	Lines reinsured:	All property business
	Company's retention:	If net retention is $150,000 or more on a risk, the company may cede on a pro rata basis, and the reinsurer is obligated to accept up to $800,000. If net retention is $100,000 or less on a risk, the company may cede on a pro rata basis, and the reinsurer is obligated to accept up to 50% of such risk.

		Plus an annual aggregate deductible amount equal to 10% of the loss and LAE otherwise recoverable.
	Coverage:	Pro rata portion of each and every loss, including LAE, corresponding to the amount of the risk ceded.
	Reinsurance premium:	The pro rata portion of all premiums, fees and assessments charged by the company corresponding to the amount of each risk ceded. Company pays reinsurer 100% of the unearned premium as of January 1, 2004.
	Ceding commission:	Commission allowance of 15% of the premium ceded. Additional profit commission of 15% of the net profit accruing to the reinsurer each year, calculated by a formula, with any net loss from preceding period carried forward.
3.	Type of contract:	Class C-1, First Layer Excess of Loss
	Lines reinsured:	Property
	Company's retention:	$15,000 per loss per occurrence. Plus an annual aggregate deductible of $15,000.
	Coverage:	100% of any loss, including loss adjustment expense, in excess of the retention up to a maximum of $135,000 for each loss occurrence.
	Reinsurance premium:	Net premium written multiplied by the sum of the previous four years' losses incurred by reinsurer divided by the total net premiums written for the same period multiplied by a factor of 100/80ths. Minimum Rate: 10% of the current net written premiums. Maximum Rate: 20% of the current net premiums written. Rate for current annual period is 10%. Maximum termination rate of 25%. Deposit premium $6,600. Minimum premium $5,300.
4.	Type of contract:	Class D/E, First Aggregate Stop Loss
	Lines reinsured:	All business written by the company.
	Company's retention:	Annual net losses, excluding loss adjustment expense, equal to 100% of annual net premium written subject to a minimum retention of $54,000 (up from $40,000 for 2003).
	Coverage:	100% of annual aggregate net losses, including LAE, in excess of retention.
	Reinsurance premium:	Net premiums written multiplied by the sum of the previous eight years' losses incurred by the reinsurer divided by the total net premiums written for the same period, multiplied by the factor of 100/80ths.

Minimum rate is 10% and maximum rate of 25%, of the current net written premiums. Current annual rate is 20%. Deposit premium of $13,200, minimum premium $11,000.

III. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2003, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

Courtland-Springvale Town Insurance Company
Statement of Assets and Liabilities
As of December 31, 2003

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash deposited in checking account	$ 56,996	$	$	$ 56,996
Cash deposited at interest	78,908			78,908
Bonds	181,703			181,703
Stocks and mutual fund investments	23,340			23,340
Premiums, agents' balances and installments:				
In course of collection	7,279		1,552	5,727
Deferred and not yet due	2,776			2,776
Investment income accrued	0	2,703	0	2,703
Totals	$351,002	$2,703	$1,552	$352,153

Liabilities and Surplus

Net unpaid losses	$ 3,300
Unpaid loss adjustment expenses	50
Fire department dues payable	190
Unearned premiums	31,863
Reinsurance payable	5,454
Total Liabilities	40,857
Policyholders' surplus	311,296
Total Liabilities and Surplus	$352,153

Courtland-Springvale Town Insurance Company
Statement of Operations
For the Year 2003

Net premiums and assessments earned		$33,035
Deduct:		
Net losses incurred	$15,168	
Net loss adjustment expenses incurred	2,822	
Other underwriting expenses incurred	24,703	
Total losses and expenses incurred		42,693
Net underwriting (loss)		(9,658)
Net investment income:		
Net investment income earned	7,432	
Net realized capital gains	1,047	
Total investment gain		8,479
Other income:		
Miscellaneous Income		1,312
Net Income		$ 133

Courtland-Springvale Town Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2003

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	2003	2002	2001	2000	1999
Surplus, beginning of year	$300,541	$316,901	$343,370	$343,601	$349,450
Net income	133	4,882	(22,038)	(5,067)	(6,752)
Net unrealized capital gains or (losses)	8,636	(17,704)	(4,431)	4,836	903
Change in non-admitted assets	1,986	(3,538)	0	0	0
Surplus, end of year	$311,296	$300,541	$316,901	$343,370	$343,601

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2003, is accepted.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. **Corporate Records**—It is recommended that all investment purchases and sales be discussed during meetings of the board of directors and that the minutes indicate their approval or disapproval.

   Action—Noncompliance. See comments in the summary of current examination results.

2. **Underwriting**—It is recommended that the company establish a formal inspection procedure for new and renewal business, whereby a sampling of new applications and of renewal business is inspected by committee members independent of the risk under consideration.

   Action—Noncompliance. See comments in the summary of current examination results.

3. **Underwriting**—It is recommended that the company establish an equitable procedure for canceling policies for nonpayment. This procedure should set the standards for what constitutes a delinquent payment pattern and the steps to be followed for every policyholder before the policy is cancelled.

   Action—Noncompliance. See comments in the summary of current examination results.

4. **Underwriting**—It is recommended that the company establish procedures for retention of records as required by s. Ins 6.80 (4), Wis. Adm. Code.

   Action—Compliance.

5. **Accounts and Records**—It is again recommended that the company maintain a complete policy register in compliance with s. Ins 13.05 (3) (a), Wis. Adm. Code.

   Action—Noncompliance. See comments in the summary of current examination results.

6. **Accounts and Records**—It is again recommended that the company maintain a complete cash receipts journal in compliance with s. Ins 13.05 (3) (b), Wis. Adm. Code.

   Action—Compliance.

7. **Accounts and Records**—It is recommended that the cash disbursement journal include check numbers and references to the general ledger accounts in compliance with s. Ins 13.05 (3) (b), Wis. Adm. Code.

   Action—Compliance.

8. **Accounts and Records**—It is recommended that the company establish procedures for completing the general ledger, at least on a quarterly basis.

Action—Noncompliance. See comments in the summary of current examination results.

9. **Accounts and Records**—It is again recommended that the company deposit all cash at least weekly, in compliance with s. Ins 13.05 (4) (a), Wis. Adm. Code.

   Action—Noncompliance. See comments in the summary of current examination results.

10. **Accounts and Records**—It is recommended that the company grant check-writing authority to at least two people.

    Action—Compliance.

11. **Accounts and Records**—It is recommended that the company establish procedures for marking disbursement voucher with the date paid and the appropriate check number.

    Action—Compliance.

12. **Disaster Recovery Plan**—It is recommended that the company establish a disaster recovery plan that will identify steps to be taken in case the company loses a key employee or loses access to company records for any reason.

    Action—Noncompliance. See comments in the summary of current examination results.

13. **Invested Assets**—It is again recommended that the company comply with s. 610.23, Wis. Stat., and s. Ins 13.05, Wis. Adm. Code, as regards to custody and control of its assets.

    Action—Noncompliance. See comments in the summary of current examination results.

14. **Invested Assets**—It is recommended that the company require the presence and signature of at least two officers, directors, or employees to gain access to the safety deposit box as set forth in s. Ins 13.05 (4) (f), Wis. Adm. Code.

    Action—Compliance.

15. **Invested Assets**—It is recommended that the company adopt a written investment plan, with board of directors' approval, as required by s. Ins 6.20 (6) (h), Wis. Adm. Code.

    Action—Noncompliance. See comments in the summary of current examination results.

16. **Cash and Invested Cash**—It is recommended that the company maintain an investment ledger, which would allow them to keep track of each investment.

    Action—Noncompliance. See comments in the summary of current examination results.

17. **Book Value of Bonds**—It is recommended that the company use the correct CUSIP numbers when reporting investments on the annual statement.

Action—Noncompliance. See comments in the summary of current examination results.

18. **Book Value of Bonds**—It is recommended that the company refrain from investing in individual corporate issues that would exceed 3% of the admitted assets without prior approval from the Commissioner.

    Action—Noncompliance. See comments in the summary of current examination results.

19. **Agents' Balances or Uncollected Premiums**—It is recommended that the company establish procedures for reconciling premium receipts with policy records and keeping track of who had paid and when.

    Action—Compliance.

20. **Agents' Balances or Uncollected Premiums**—It is recommended that the company establish accounting controls over cash receipts as set forth in s. Ins 13.05 (4)(a), Wis. Adm. Code.

    Action—Compliance.

21. **Net Unpaid Losses**—It is again recommended that the company promptly pay every insurance claim within 30 days after the insurer is furnished written notice of the fact and amount of a covered loss, as required by s. 628.46 (1), Wis. Stat.

    Action—Noncompliance. See comments in the summary of current examination results.

22. **Net Unpaid Losses**—It is recommended that the company maintain a complete loss register in compliance with s. Ins 13.05 (3) (f), Wis. Adm. Code.

    Action—Noncompliance. See comments in the summary of current examination results.

23. **Unpaid Loss Adjustment Expenses**—It is recommended that the company establish procedures for maintaining a liability for unpaid loss adjustment expense as required in the Town Mutual Annual Statement Instructions.

    Action—Compliance.

24. **Payroll Taxes Payable**—It is recommended that the company prepare written rental agreements listing the terms and compensation agreed on between the board of directors and the applicable party.

    Action—Compliance.

25. **Business Plan**—It is recommended that the company establish a business plan that will address the current exam recommendations and the long-range plans of the company and submit a copy of the plan to the Commissioner within 90 days of the adoption of this report.

    Action—Compliance.

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and committees thereof, were reviewed for the period under examination and also for the subsequent period. Approval of individual investments is not recorded in the minutes. Investments are discussed at board meetings, according to the Treasurer, but nothing is documented in the minutes. The Treasurer's report is approved in the minutes, but it is an oral report not a written report. At the annual policyholder meeting a motion is passed to give the board of directors the authority to move and invest money as they see fit. It is again recommended that at meetings of the board of directors that the minutes indicate the approval or disapproval of all individual investment purchases and sales.

The minutes of the annual policyholders meetings, except for 1999, did not state the number of policyholders at the meetings. This is needed to determine if a quorum is present. It is recommended that the minutes of the annual or special meetings of policyholders record the number of policyholders present at each meeting.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

A review of policies for directors of the company noted that the Treasurer and Secretary, who are both directors did not have a policy with the company. They cancelled their policy with the company on February 16, 2001. Michael and Patricia Jung were re-elected to the board in 2002, at a time when they were not policyholders; the company's articles and s. 612.13(2), Wis. Stat., require that directors be policyholders. It is recommended that all directors have a policy with the company, and that the board of directors annually monitor that all directors have a policy with the company. After the examination field work, Michael and Patricia Jung purchased a policy with the company as of June 1, 2004.

The company did not have a proper Secretary and Treasurer, nor two proper directors, during the time that these two persons were not policyholders. The company's bylaws define a quorum as a "majority of directors." Thus, some of the board meetings did not have a quorum present, and transactions of the company could be considered improper. It is recommended that all board of directors meetings have a majority of directors present to approve transactions so the company is not in violation of its bylaws.

The company has a formal written agreement executed May 1, 1993, with its only agent, the company's Treasurer. The contract includes language that does not currently reflect how the company operates, does not list the commissions paid, does not have lines for the agent and the company to sign the contract, and the language indicating the agent will represent the company's interests "in good faith" is not clear. It is recommended that the company's agency agreement be updated to reflect the current operations of the company, include the commissions paid, have lines for the contract to be signed by the agent and the company, and clearly indicate that the agent will represent the company's interests "in good faith."

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted. The company questionnaire includes a statement that indicates there are no conflicts unless a form is attached. The form stated that the company has a statement on conflict of interests prepared by the company, which the person signing the form has read. The company did not have such a statement on conflicts of interest. During the examination the company developed a new conflict of interest questionnaire to be used that is acceptable.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Fidelity bond	$ 20,000
Insurance Agents Errors and Omissions	100,000
Directors & Officers and Professional Liability	1,000,000

Underwriting

The company has a written underwriting guide consisting of a checklist. The guide covers all the lines of business that the company is presently writing.

The company does not have a formal inspection procedure for both new and renewal business. The previous examination report recommended that the company establish a formal inspection procedure for new and renewal business. In response to the prior examination, the company developed and provided an inspection checklist to OCI; however, the company never used the checklist for inspections. The only inspection is what the agent does when the policy is written and then when it is rewritten every three years. It is recommended that the company use a written inspection checklist to perform inspections, and that the documentation be retained in the policy file. It is again recommended that the company establish a formal inspection procedure whereby a sampling of new applications and renewal business is inspected by persons independent of the risk under consideration.

Starting in 2003 all policies rewritten were to have a complete set of photos in the policy file showing buildings and equipment priced higher than $10,000. Also all new business is to follow the same procedure. A review during the examination noted that this procedure was not being followed. It is recommended that the company follow its underwriting and inspection guidelines with regard to photographs of insured property.

The review of the company's underwriting included a review of procedures and documentation for policy cancellations. During this review, it was noted that the company does not adequately document or follow-up on late payments. The Treasurer stated the company had not cancelled any policies for at least three years and that there is no list of cancelled policies. The company sends out a second notice to "problem cases" when the policyholder has not paid.

However, the second notice does not contain a clear notice regarding the effect of nonpayment of premium or a past-due amount. The year-end 2003 premium receivable balance included six policies due in 2002. The previous examination noted problems and recommended that the company establish an equitable procedure for canceling policies for nonpayment. The procedures established by the board of directors are not being followed for every policyholder in the event of a delinquent payment. It is again recommended that the company follow up on outstanding premium receivables, follow the steps to properly terminate policies for non-payment of premium, and that the company maintain a list of all terminated policies.

Claims Adjusting

The company stated it has an adjusting committee consisting of the board of directors. However, s. 612.13 (4), Wis. Stat., requires that the directors shall annually appoint from their own number an adjusting committee of at least three directors to adjust or supervise the adjustment of losses. A review of the board of directors minutes did not find the appointment of an adjustment committee. It is recommended that to comply with s. 612.13 (4), Wis. Stat., that the minutes of the board of directors indicate the annual appointment of an adjustment committee consisting of at least three directors.

Starting in 2004, the Treasurer does not adjust losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is not in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is not maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5. A proper general ledger is not maintained

The company’s policy register contained in-force information that was incorrect. The policy register did not include reinsurance premium ceded as required by s. Ins 13.05, Wis. Adm. Code. The policy register did not agree to the annual statement. The policy register that the examiners received was not the same as the one that the company's CPA received. Also, the policy register showed $7,430,600 of coverage ceded at year end, but the reinsurer's statement for year-end 2003 had $2,318,500 of coverage ceded. The previous two examinations recommended that the company maintain a complete policy register. It is again recommended that the company maintain a complete policy register in compliance with s. Ins 13.05 (3) (c), Wis. Adm. Code, that shows the correct amount of reinsurance premium ceded and which traces to the annual statement.

The company appears to be entering premium receipts and check disbursements to the general ledger on almost a monthly basis. However, investment transactions and investment income receipts are only entered into the general ledger once a year as an adjusting entry by the CPA. Thus, the company's general ledger is not always up to date, except at year-end. A recommendation was made in the last examination report. It is again recommended that the general ledger be completed at least on a quarterly basis, and that the company establish procedures for doing this.

The company instructed the Treasurer to use an investment ledger to record transactions, after a recommendation was made in the prior examination report. This is not currently being done. The company does keep folders for the investments but as noted above, an adjusting general ledger entry is made only at year end. This makes it difficult to accurately determine sales and purchases of securities, principal pay downs and investment income. For several bonds, interest did not trace to confirmation notices, or interest was reported for the wrong security on the annual statement. Also, CUSIP numbers were not always correct. It is again recommended that the company maintain an investment ledger on a monthly basis, which would keep track of each investment. Each certificate of deposit, bond, stock, mutual fund and any other investment should have its own page or spreadsheet to record purchases, sales, principal paydowns and interest or dividends. Adherence to these recommendations will enable the company to maintain better control over its investments.

The company has granted check-writing authority to the President and the Secretary, as well as the Treasurer. However, a review of checks noted that all checks are signed only by the Treasurer. The company did not designate a dollar amount above which a check is required to have two signatures, in violation of s. Ins 13.05 (4) (b), Wis. Adm. Code. The Treasurer records all income and disbursements, makes all deposits, prints the checks and deposit slips the company uses, and is the only agent for the company. At each board of directors meeting, the directors review the checks paid as part of the Treasurer's report. However, there is no written documentation on what has been done. It is recommended that the company set up limits for check writing authority, have two signatures required over a certain limit, and that the President and the Secretary sign off on the vouchers to show proper authorization.

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2003.

A review of cash receipts noted that the deposits for November and December 2003 were listed as deposits in transit at year-end and were deposited in 2004 on the bank's records. The Treasurer indicated that deposits are done only once a month and less often in less busy times. The previous two examinations recommended that the company deposit all cash at least weekly. Checks are not applied to the policyholder's accounts until the check is deposited. Thus, a policyholder's uncollected premium balance in the ledger was not always current. The examiners noted that checks are stamped for deposit when received. However, it is again recommended that the company deposit all checks and cash receipts at least weekly in compliance with s. Ins 13.05 (4) (a), Wis. Adm. Code, and that the company enter the checks and cash into the premium system when they are received rather than the day the money is deposited.

The company is not audited annually by an outside public accounting firm, but it does employ a CPA firm for preparation of its annual statement and for adjusting entries for the year.

Reinsurance Ceded

The company stopped ceding Class B reinsurance during 2003. The Treasurer stated that the company stopped ceding reinsurance on policies that were rewritten or were new in 2003. However, a review of ceding slips and records from the reinsurer indicated this was not correct. It appears the company stopped reinsuring policies that were in force, especially during the fourth quarter of 2003. There was no approval by the board of directors in 2003 to stop ceding Class B reinsurance. The policy register shows $7,430,600 of coverage ceded at year end, but the reinsurer's statement only had 8 policies with $2,318,500 of coverage ceded. Also, the policy with the largest fire risk insured as presented in the annual statement did not have the correct reinsurance and net exposure listed. It is recommended that the company's reinsurance records show the correct amount of reinsurance coverage ceded, that the minutes document the board of directors' approval to changes in reinsurance ceding, that the company comply with its reinsurance contracts, and that the general interrogatory in the annual statement show the correct amount for the largest fire risk insured.

The company and its reinsurer agreed in March 2001 to change the terms of the Class B First Surplus contract to $150,000 retention (from $100,000) and the terms of the Class C-1 contract to $135,000 coverage (from $85,000) in excess of $15,000 retention. The parties never reduced these changes to writing. The 2002-'03-'04 contracts were renewed with the original 2001 terms in place; however, the parties have transacted business using the revised contract terms. The company signed and submitted its 2002-'03-'04 contracts to this office without recognizing that the written terms did not match its intended program of coverage. In January 2005 the reinsurer acknowledged the error in the 2001-'04 contracts and confirmed that the changes had been in effect since March 15, 2001.

EDP Environment

Company personnel were interviewed with respect to the company's electronic data processing environment. Access to the computer is limited to the Treasurer and the Secretary with the use of passwords.

Company personnel back up the computer daily and the backed-up data is kept on-site. It is recommended that the company establish a procedure in which at least monthly the backed-up data is kept in a secure off-site location.

The company uses general-purpose software which is not intended to produce records for an insurance company, such as a policy register, loss register, and general ledger. The policy register produced manually from the computer records was not accurate. The policy register is not merged automatically from other records. As noted previously, the policy register did not have in-force amounts and reinsurance ceded amounts that were correct. The company needs to be able to accurately produce the reports it needs, and have computer software that can produce the proper records as required by s. Ins 13.05, Wis. Adm. Code. The company has a manual which describes how to use the company's software. However, the company does not have manuals or outside support for the applications needed to produce the records needed for an insurance company. Also, there was no run date on the in-force report to tell when the last changes were made. It is recommended that the company have computer software and manuals or other systems that can produce proper and accurate records for a town mutual insurance company as required by s. Ins 13.05, Wis. Adm. Code.

Business Continuity Plan

A business continuity plan identifies steps to be performed by a company in the event of business interruptions including, but not limited to, the inability to access its computer, the loss of information on its computer, the loss of a key employee, or the destruction of its office building. The company has developed a business continuity plan. However, the company's business continuity plan is not adequate as it does not address all the information that should be included. It does not identify steps to be taken in case the company loses access to its computer, the loss of information on its computer, the loss of a key employee, or the destruction of its home office building. It is again recommended that the company develop an adequate business continuity plan that will identify steps to be taken if there is loss of a key employee, the company loses access to company records including information on its computer, or the loss of its office space; and that the revised plan is filed with this office within 180 days of the adoption of this report.

Business Plan

The current and prior examinations have noted significant weakness with the overall recordkeeping and accounting controls, and the monitoring of the investments. These weaknesses are discussed throughout the body of this report and led to new recommendations and the repeat of numerous prior exam recommendations. The examiners discussed these issues with the company and made several suggestions on how some of these issues could be resolved. The examiners also asked how the company felt about merging with another company. The company has not been receptive to the idea. However, given the current amount of in-force policies, net premiums available to support its operations, and the numerous compliance issues, it may be time for the company to reconsider a merger.

The prior examination stated the examiners felt that it was time for the company's board of directors to develop a business plan to help the company focus on their current situation and to develop plans for the future. As part of this process, the board was to consider how to comply with the applicable codes and statutes and to develop long-range plans and goals. The company needs to be concerned about its future as a town mutual. A business plan was approved by the board of directors in 2000 and 2004. The company has not taken appropriate action on the business plans. Fourteen of the twenty-five recommendations from the prior recommendation were not complied with. Also, the short-term goals have not been meet, and the long-term goals do not address its future as a town mutual. It is recommended that the company execute its business plan by complying with the examination recommendations, meet its short-term goals and have long-range plans that will address the future of the town mutual and submit a copy of the plan to the Commissioner within 90 days of the adoption of this report.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

(1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and

(2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is not in compliance with these requirements. Two bond certificates are being held by a brokerage firm. Other bonds are held in a custodial account with a bank. However, the company does not have a custodial agreement with the bank. Also, a mutual fund investment is being held at a brokerage firm. It is again recommended that the company comply with s. 610.23, Wis. Stat., and s. Ins 13.05, Wis. Adm. Code, as regards custody and control of its invested assets by obtaining a signed custodial agreement that complies with the NAIC Examiner's Handbook, and by not having brokerage firms hold securities for the company. This is the third consecutive examination that this recommendation has been made.

Investment Rule Compliance

The investment rule for town mutual insurers allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1.	Liabilities plus $300,000	$340,857
2.	Liabilities plus 33% of gross premiums written	67,210
3.	Liabilities plus 50% of net premiums written	59,829
4.	Amount required (greater of 1, 2, or 3)	340,857
5.	Amount of Type 1 investments as of 12/31/2003	281,959
6.	(Deficiency)	$(58,898)

The company does not have sufficient Type 1 investments.

The investment rule prescribes that a town mutual shall divest any investment which does not comply with the rule within three years of its noncompliance, unless the Commissioner permits a longer period or requires a shorter period. Currently the company has five investments, with a statement value of $58,988, which are not in compliance with the new investment rule. The company's plan to bring four of these investments into compliance was approved by the Commissioner.

Since the inception of the investment rule, the company has made additional Type 2 investments without having an adequate amount of Type 1 investments. Since the previous examination bonds were purchased, especially in 2001, which were Type 2. The company currently holds one Type 2 bond which has not been approved by OCI to hold. The bond is valued at $17,800, which is over 6% of admitted assets and well in excess of the limit of 3% of admitted assets, and will mature in 2008. It is again recommended that the company make no additional Type 2 investments until the company meets the required amount of Type 1 investments, pursuant to s. Ins 6.20 (6) (c), Wis. Adm. Code. This includes not investing in bonds over 3% of admitted assets without prior approval from the Commissioner.

As part of the new investment rule (effective January 1, 1997), companies were required to adopt written investment plans. In 1992, the company developed an investment plan. The previous examination did not consider the plan to be sufficient, and a recommendation was made. The company's investment plan does not discuss investment practices that would assure compliance with the investment rule in regard to Type 1 investments. The investment plan is very brief and does not outline an investment strategy except use of certificates of deposit. The plan does not discuss the quality of the securities to be invested in. The company owns 15 bond investments that are not covered by its current investment plan. It is again recommended that the company adopt a written investment plan in greater detail which includes the type and quality of investments as required by s. Ins 6.20 (6) (h), Wis. Adm. Code, with the board of directors' approval.

ASSETS

Cash and Invested Cash **$135,904**

The above asset is comprised of the following types of cash items:

Cash deposited in banks-checking accounts	$ 56,996
Cash deposited in banks at interest	78,908
Total	$135,904

Cash deposited in banks without interest subject to the company's check and withdrawal consists of one account maintained in a local bank. Verification of the checking account balance was made by obtaining confirmations directly from the depository and reconciling the amounts shown thereon to company records.

Cash deposited in banks at interest represents the aggregate of six deposits in three depositories. One account was a checking account with interest. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates. Interest received during the year 2003 totaled $3,354 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.5% to 3.3%, with the checking account having a variable rate. Accrued interest on cash deposits totaled $617 at year-end.

Book Value of Bonds **$181,703**

The above asset consists of the aggregate book value of bonds owned by the company as of December 31, 2003. Bonds owned by the company are held at a bank in a custodial account, and at a brokerage firm, as described in the “Invested Assets” section of this report.

Bonds were not physically inspected by the examiners. Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in bonds was not in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers, as described in the “Invested Assets” portion of this report.

Interest received during 2003 on bonds amounted to $8,567 and was traced to custodian statement and cash receipts records. Accrued interest of $2,086 at December 31, 2003, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$23,340**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2003.

Stock certificates were not physically examined by the examiners as the company could not locate them. It is recommended that the company notify the issuers that the stock certificates are lost, obtain replacement certificates, and place them in the company’s safety deposit box.

Dividends received during 2003 on stocks and mutual funds amounted to $1,092 and were traced to cash receipts records. There was no dividends receivable at December 31, 2003.

Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was not in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. As noted in the “Invested Assets” section of this report, the company owns a mutual fund that is being held by a brokerage firm. It is recommended the company have all mutual fund investments held in its own name in order to comply with s. 610.23, Wis. Stat.

Premiums, Agents' Balances in Course of Collection **$5,727**

This asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. Amounts over 90 days past due at year-end totaled $1,552. A review of the customer balance detail found the premium receivable balance to be reasonably stated.

The company has a report by customer that shows the amounts billed and what has been paid. A review of the report noted that, when a policy is rewritten every three years, a premium notice with premium from the previous policy term is sent, and the old amount is entered into the premium system. When the policy is rewritten, the new premium on the customer balance detail report is entered and the beginning balance is removed rather than making adjustments to the entries. Thus a balance due shown at each month end will not agree with a beginning balance the next month. The examiners did not see documentation that the insured receives information on what the new amount for the policy is when it is changed. It is recommended that the company make adjustments to the premium billed amounts in the system rather than simply changing or eliminating the amounts, and that documentation be kept showing what was sent to the policyholder regarding the new premium amount. This applies to reports for premium, customer balance and accounts receivable aging.

The accounts receivable aging reports do not appear to correctly match partial payments to invoiced amounts. If partial payments and the invoiced amounts do not agree exactly, the differences are left on the outstanding report. It is recommended that the company maintain and be able to provide correct premiums receivable aging reports. Also, since premiums are entered when they are billed, the receivable can include a policy effective the next month. At year-end 2003 this involved only one policy. The company should be aware of the annual statement instruction that states that new or renewal policies with an effective date after December 31st should not be included on the balance sheet, even if the insured was billed prior to December 31st.

Premiums Deferred and Not Yet Due **$2,776**

This asset represents modal premium installments (such as monthly, quarterly, etc.) that are not yet due. A review of a sample from the company's detailed list of deferred premiums verified the accuracy of this asset.

Investment Income Due and Accrued **$2,703**

Interest due and accrued on the various assets of the company at December 31, 2003, consists of the following:

Cash at Interest	$ 617
Bonds	2,086
Total	$2,703

LIABILITIES AND SURPLUS

Net Unpaid Losses **$3,300**

This liability represents losses incurred on or prior to December 31, 2003, that remained unpaid as of that date. The examiners reviewed the reasonableness of this liability by totaling actual loss payments made subsequent to December 31, 2003, with incurred dates in 2003 and prior years. To the actual paid loss figure was added an estimated amount for 2003 and prior losses remaining unpaid at the examination date. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule.

	Company Estimate	Examiners' Development	Difference
Incurred but unpaid losses	$6,474	$7,003	$529
Less: Reinsurance recoverable on unpaid losses	3,174	3,174	0
Net Unpaid Losses	$3,300	$3,829	$529

The above difference of $529 was not considered material for purposes of this examination, so there was no adjustment to the examination surplus. Due to the company not having a loss register, it could not be determined if any of the claims were incurred but not reported.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and claims which were denied during the examination period. The review indicated that due to lack of information, it could not be determined if claims are investigated and evaluated properly or if payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is not maintained.
2. Claim files did not contain sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed, but they did not always contain the information required or the correct information.

The Treasurer stated that they did not have a loss register. The company did have a report for paid losses with limited claim information on it. It was recommended at the last examination that the company have a complete loss register. It is again recommended that the company maintain a complete loss register in compliance with s. Ins 13.05 (3) (f), Wis. Adm. Code.

The review of proofs of loss found they did not always contain the correct information or the information needed. Also, receipts, bills and other claim documentation did not indicate the date information had been received. It is recommended that proofs of loss contain the information required to support the settlement being made and that all claim documentation be marked with the date when the information is received.

Without a loss register and accurate information as to date of loss, date reported, date of information received, it is impossible to tell if claims are paid promptly. The examination also found that the company has claims open without settlement, while the company waits for information from the claimant or for the insured to repair covered damages. This practice may be interpreted to be an unfair settlement policy by failure to initiate and conclude claim investigations in a reasonable period of time. It also increases the company’s exposure to additional loss sustained on damaged and unrepaired property. The company had one claim open from May 2002. The company’s practice of waiting for payment of claims that are over $1,000 to be reviewed at board of directors meetings could also lead to noncompliance. It was also noted that a 2003 claim for $425 that was open at year-end, had documentation in 2004 but still had not been paid at the time of the examination. It is again recommended that the company adopt procedures for timely settlement of claims, follow up on claims within a reasonable amount of time, and promptly pay every insurance claim within 30 days after being furnished a completed proof of loss or equivalent evidence with the facts of and the amount of a covered loss to be in compliance with s. 628.46, Wis. Stat,. and s. Ins 6.11, Wis. Adm. Code. The company should send letters on outstanding claims requesting the information needed.

Unpaid Loss Adjustment Expenses $50

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2003, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is to use an adjusting fee of $25 per loss.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Fire Department Dues Payable **$190**

This liability represents the fire department dues payable at December 31, 2003. The examiners reviewed the company's fire department dues calculation and found this liability to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Unearned Premiums **$31,863**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using 50% of gross premium written reduced by ceded unearned premiums as confirmed by the reinsurer.

Reinsurance Payable **$5,454**

This liability consists of amounts due to the company's reinsurer at December 31, 2003, relating to transactions which occurred on or prior to that date.

V. CONCLUSION

There were 128 polices in force as of December 31, 2003, a decrease of 8.6% since 1998 and a decrease of 18% since 1993. Due to investment income the company reported net income of $5,015 the past two years, but the prior three years the company had net losses totaling $33,857. As a result, surplus has decreased 11% from the end of 1998 to $311,296 at the end of 2003. The company has only one year (1996) with an underwriting gain in the last 11 years. The company had a premium increase starting in 2004.

The Treasurer and the Secretary did not have a policy with the company during the period from February 16, 2001, to June 1, 2004. The company did not have a proper Secretary and Treasurer, nor two proper directors, during this time. Some of the board meetings did not have a majority present, and transactions of the company could be considered improper.

The current examination report contains thirty recommendations. Fourteen of the twenty-five recommendations made as a result of the prior examination were not complied with. The current and prior examinations have noted significant weaknesses with the company's recordkeeping, accounting controls, and the monitoring of the investments. This is the third consecutive examination that a recommendation has been made regarding the custody and control of invested assets.

As a result of the noncompliance with the prior recommendations and the new ones, it was again recommended that the company submit a business plan to this office. This plan should not only include how the company will comply with the current recommendations but also long-range plans concerning the company's direction and goals.

The Treasurer is new since the last examination, and needs to be more aware and understand what is required of a town mutual insurance company. The Treasurer now appears to be doing most of the duties of the company, including being the only agent for the company. Under the current Treasurer, the company has begun using a computer to maintain some of its records. The previous and current examinations discussed with the company the advantages of obtaining software specially designed for town mutual insurance companies. Not having software that can produce the reports and information needed for a town mutual is still a problem.

The company stopped ceding Class B reinsurance in 2003. Minutes did not indicate approval of this by the board of directors. Reinsurance ceded at year-end 2003 in the policy register was $7,430,600 while the reinsurer's statement listed $2,318,500. For 2004 and 2003, it appears the company has coverage by Class D/E- Aggregate for policies not reinsured under Class B.

The company's board must determine how they can meet the required standards to be a town mutual insurance company. The board of directors has to put a lot more emphasis on complying with the recommendations and the long-term success of the company. Given the current amount of in-force polices, net premiums available to support its operations, and the numerous compliance issues, it may be time for the company to reconsider a merger.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 16 - **Corporate Records**—It is again recommended that at meetings of the board of directors that the minutes indicate the approval or disapproval of all individual investment purchases and sales.

2. Page 16 - **Corporate Records**—It is recommended that the minutes of the annual or special meetings of policyholders record the number of policyholders present at each meeting.

3. Page 16 - **Corporate Records**—It is recommended that all directors have a policy with the company, and that the board of directors annually monitor that all directors have a policy with the company.

4. Page 17 - **Corporate Records**—It is recommended that all board of directors meetings have a majority of directors present to approve transactions so the company is not in violation of its bylaws.

5. Page 17 - **Corporate Records**—It is recommended that the company's agency agreement be updated to reflect the current operations of the company, include the commissions paid, have lines for the contract to be signed by the agent and the company, and clearly indicate that the agent will represent the company's interests "in good faith."

6. Page 18 - **Underwriting**—It is recommended that the company use a written inspection checklist to perform inspections, and that the documentation be retained in the policy file.

7. Page 18 - **Underwriting**—It is again recommended that the company establish a formal inspection procedure whereby a sampling of new applications and renewal business is inspected by persons independent of the risk under consideration.

8. Page 18 - **Underwriting**—It is recommended that the company follow its underwriting and inspection guidelines with regard to photographs of insured property.

9. Page 19 - **Underwriting**—It is again recommended that the company follow up on outstanding premium receivables, follow the steps to properly terminate policies for non-payment of premium, and that the company maintain a list of all terminated policies.

10. Page 19 - **Claims Adjusting**—It is recommended that to comply with s. 612.13 (4), Wis. Stat., that the minutes of the board of directors indicate the annual appointment of an adjustment committee consisting of at least three directors.

11. Page 20 - **Accounts and Records**—It is again recommended that the company maintain a complete policy register in compliance with s. Ins 13.05 (3) (c), Wis. Adm. Code, that shows the correct amount of reinsurance premium ceded and which traces to the annual statement.

12. Page 20 - **Accounts and Records**—It is again recommended that the general ledger be completed at least on a quarterly basis, and that the company establish procedures for doing this.

13. Page 20 - **<u>Accounts and Records</u>**—It is again recommended that the company maintain an investment ledger on a monthly basis, which would keep track of each investment.

14. Page 21 - **<u>Accounts and Records</u>**—It is recommended that the company set up limits for check writing authority, have two signatures required over a certain limit, and that the President and the Secretary sign off on the vouchers to show proper authorization.

15. Page 21 - **<u>Accounts and Records</u>**—It is again recommended that the company deposit all checks and cash receipts at least weekly in compliance with s. Ins 13.05 (4) (a), Wis. Adm. Code, and that the company enter the checks and cash into the premium system when they are received rather than the day the money is deposited.

16. Page 22 - **<u>Reinsurance Ceded</u>**—It is recommended that the company's reinsurance records show the correct amount of reinsurance coverage ceded, that the minutes document the board of directors' approval to changes in reinsurance ceding, that the company comply with its reinsurance contracts, and that the general interrogatory in the annual statement show the correct amount for the largest fire risk insured.

17. Page 23 - **<u>EDP Environment</u>**—It is recommended that the company establish a procedure in which at least monthly the backed-up data is kept in a secure off-site location.

18. Page 23 - **<u>EDP Environment</u>**—It is recommended that the company have computer software and manuals or other systems that can produce proper and accurate records for a town mutual insurance company as required by s. Ins 13.05, Wis. Adm. Code.

19. Page 23 - **<u>Business Continuity Plan</u>**—It is again recommended that the company develop an adequate business continuity plan that will identify steps to be taken if there is loss of a key employee, the company loses access to company records including information on its computer, or the loss of its office space; and that the revised plan is filed with this office within 180 days of the adoption of this report.

20. Page 24 - **<u>Business Plan</u>**—It is recommended that the company execute its business plan by complying with the examination recommendations, meet its short-term goals and have long-range plans that will address the future of the town mutual and submit a copy of the plan to the Commissioner within 90 days of the adoption of this report.

21. Page 25 - **<u>Invested Assets</u>**—It is again recommended that the company comply with s. 610.23, Wis. Stat., and s. Ins 13.05, Wis. Adm. Code, as regards custody and control of its invested assets by obtaining a signed custodial agreement that complies with the NAIC Examiner's Handbook, and by not having brokerage firms hold securities for the company.

22. Page 26 - **<u>Investment Rule Compliance</u>**—It is again recommended that the company make no additional Type 2 investments until the company meets the required amount of Type 1 investments, pursuant to s. Ins 6.20 (6) (c), Wis. Adm. Code.

23. Page 27 - **Investment Rule Compliance**—It is again recommended that the company adopt a written investment plan in greater detail which includes the type and quality of investments as required by s. Ins 6.20 (6) (h), Wis. Adm. Code, with the board of directors' approval.

24. Page 29 - **Stocks and Mutual Fund Investments**—It is recommended that the company notify the issuers that the stock certificates are lost, obtain replacement certificates, and place them in the company's safety deposit box.

25. Page 29 - **Stocks and Mutual Fund Investments**—It is recommended the company have all mutual fund investments held in its own name in order to comply with s. 610.23, Wis. Stat.

26. Page 30 - **Premiums, Agents' Balances in Course of Collection**—It is recommended that the company make adjustments to the premium billed amounts in the system rather than simply changing or eliminating the amounts, and that documentation be kept showing what was sent to the policyholder regarding the new premium amount.

27. Page 30 - **Premiums, Agents' Balances in Course of Collection**—It is recommended that the company maintain and be able to provide correct premiums receivable aging reports.

28. Page 32 - **Net Unpaid Losses**— It is again recommended that the company maintain a complete loss register in compliance with s. Ins 13.05 (3) (f), Wis. Adm. Code.

29. Page 32 - **Net Unpaid Losses**—It is recommended that proofs of loss contain the information required to support the settlement being made and that all claim documentation be marked with the date when the information is received.

30. Page 32 - **Net Unpaid Losses**—It is again recommended that the company adopt procedures for timely settlement of claims, follow up on claims within a reasonable amount of time, and promptly pay every insurance claim within 30 days after being furnished a completed proof of loss or equivalent evidence with the facts of and the amount of a covered loss to be in compliance with s. 628.46, Wis. Stat,. and s. Ins 6.11, Wis. Adm. Code.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Kerri L. Miller of the Office of the Commissioner of Insurance (OCI), State of Wisconsin, participated in the examination:

Respectfully submitted,

Andrew M. Fell
Examiner-in-Charge